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SUBJECT: BURKINA FASO: 2008 MIDTERM REVIEW OF THE POVERTY REDUCTION
STRATEGY PAPER (PRSP)

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08 Ouagadougou 835; H) 08 Ouagadougou 909; I) 08 Ouagadougou 1024

Summary

¶1. In October 2008, the Government of Burkina Faso (GOBF) met with domestic stakeholders and international donors to conduct a mid-term review to provide stakeholders with crucial updates on macroeconomic, structural, and social policies related to the country's Poverty Reduction Strategy Paper (PRSP). PRSPs are prepared by International Monetary Fund (IMF) member countries and are updated every three years with annual progress reports, describing the macroeconomic, structural and social policies and programs that reduce poverty.

¶2. According to the mid-term review of Burkina Faso's PRSP, despite soaring prices and a difficult economic climate, the country could experience relatively good economic performance in 2008. The report also found, however, that strong economic performance could not reduce the nation's incidence of poverty, which is forecast to grow by more than two percentage points by the end of 2008. Donors blamed this phenomenon on inequities in wealth distribution, the Government of Burkina Faso's (GOBF) inability to meet donor requirements, and anti-inflationary policies, which did nothing to help the nation's neediest groups. End Summary.

PRSP DISBURSEMENTS BEHIND SCHEDULE

¶3. Burkina Faso's PRSP is based on four strategic objectives: i) accelerated and shared growth; ii) improved access to basic social services; iii) increased employment opportunities and income generating activities; and iv) the promotion of good governance. The midterm review of the PRSP evaluated the performance and disbursement of budgetary support and assessed the implementation of the Priority Action Program (PAP) during the first half of 2008. The purpose of the PAP is to provide an operational framework for the implementation of the PRSP, which translates guidelines into concrete actions and quantifiable measurements. To date, three triennial rolling programs have been designed and implemented: 2004-06, 2005-07 and 2006-08.

¶4. 2008 donor budget support for the PRSP was 119 billion CFA (USD 238 million). Seventy-seven percent of this budget (91 billion CFA (USD 182 million)) came from donations and 23 percent were loans (28 billion CFA (USD 56 million)). By the end of September 2008, actual budget disbursements were only 65 percent (77 billion CFA (USD 155 million)) of the forecasted expenditures for 2008. During the same period in 2007, 99 percent (112 billion (USD 224 million)) of the originally programmed amount had already been dispersed. This means that in order to meet this year's goals, an additional USD 83 million needed to be disbursed during the fourth quarter of 2008.

15. According to the midterm report, this shortfall in expenditures "is due both to the GOBF's failure to comply with certain conditions required for disbursements as well as donors, such as the World Bank and Germany, who have been slow to institute new programs." The report pointed out that the government's failure to meet good governance criteria, specifically the publication of the report of the High Authority for the Coordination of the Fight against Corruption (HALCL), has led to a major delay in donor disbursements.

16. The government responded to this criticism by declaring that the midterm implementation of the PAP was "satisfactory" and claiming that the nation's poor now have better access to basic social services than ever before. As further proof of its fight against corruption, the GOBF pointed to the newly created Autorite de Regulation des Marches Publics (ARMP), a regulatory oversight body to watch over the tender process for government contracts. (ref G). The ARMP is vested with the authority to impose sanctions, initiate lawsuits, and publish the names of fraudulent or delinquent businesses.

INEQUALITIES REMAIN DESPITE UPBEAT ECONOMIC FORECAST

17. Despite a fiscal climate plagued by soaring food and energy prices, Burkina Faso's economic performance was relatively good. The latest study conducted by the IMF in late September, found that "there are signs that economic activity is recovering, and real GDP growth for 2008 is projected to increase to 4.5 percent." The report attributed this sound performance to several factors including: favorable weather conditions, a marked increase in mining activity (refs F and H), and the continued implementation of fiscal and structural reforms. Additionally, the mission mentioned that a favorable 2008 harvest was expected to reduce the average annual inflation rate, from 14.1 percent in August to 9.5 percent by the end of 2008 (ref I). The report also found that the budget deficit would be reduced from 12.2 percent in 2007 to 11.4 percent in 2008.

18. Despite economic improvements, the Ministry of Economy and Finance (MEF) admitted that the incidence of poverty could grow by more than two percentage points from 42.6 percent in 2007 to 44.8 percent in 2008. The deterioration in the incidence of poverty indicator was attributed to price increases of basic commodities during the first quarter of 2008, which greatly impacted the purchasing power of vulnerable households. This situation led the GOBF to take steps to mitigate the impact of high food and oil prices on vulnerable populations. These measures included the suspension of customs duties and Value Added Tax (VAT) on rice, milk, pasta, soap, oil and salt. (B) In October, the independent newspaper, "Le Pays," quoted the Deputy Minister of Budget, Marie-Therese Drabo Keita, who reported that as of October 17, the national budget had lost nearly 4 billion CFA (USD 8 million) due to the six-month tax suspension.

19. The International Monetary Fund (IMF) dismissed these tax reductions as "ineffective" because they did not target the neediest population segments. The report added that, "temporary suspension of customs duties and VAT to mitigate the impact of price increases on the population has far less impact than social programs. Subsidies and transfers need to be better directed in order to more effectively reach the neediest segments of the population." The IMF report added that shortfalls in tax revenue caused by the tax suspension were nominal, only 0.2 percent of Gross Domestic Product (GDP) for the first quarter. In lieu of tax cuts, the IMF study advocated measures which directly target vulnerable groups, such as school feeding programs, reduced fees for basic health services, and cash transfer systems. The report also proposed the full pass-through of international fuel prices to help eliminate national oil company losses which would ultimately have to be borne by the government.

OTHER STAKEHOLDERS WEIGH IN

10. During the PRSP review, donors praised the GOBF for progress in

implementation of the Priority Action Program (PAP). However, they claimed that an increased incidence of poverty, despite relatively good economic performance, suggested an inequitable distribution of wealth. Donors were also concerned by ineffective government measures, such as the suspension of customs duties and VAT, which did not benefit the poor. They also welcomed government initiatives to provide access to free education, basic health care and cheaper anti-retroviral medications (ARVs). Stakeholders promised to work closely with the GOBF to prepare a next generation PRSP that would more effectively target the issues surrounding vulnerable populations.

¶11. Donors once again voiced concern that corruption continued to threaten the fight against poverty in Burkina Faso and insisted upon improvements in both public procurements and the judicial system. They also mentioned that transparent procedures for awarding public contracts were a central element of good governance on both national and local levels. Donors agreed that improving government accountability through the timely publication of the report of the Public Account Court was essential, but expressed frustration that the promised 2007 report had not yet been published.

¶12. Private sector spokesman, Issa Ouattara, expressed appreciation that his delegation had been involved in the PRSP review process. He also conveyed his satisfaction with the newly established dialogue between the GOBF and the private sector. According to Ouattara, this dialog has resolved many longstanding issues and enabled Burkina Faso to be ranked in the World Bank's "2009 Doing Business Report" as one of the top ten reformers for 2009. However, Ouattara reminded the GOBF that recurring problems such as high production costs, lack of access to financing, and fraud, continued to inhibit private sector gains.

¶13. Representatives from Civil Society Organizations (CSO) debated whether the review of the PRSP was truly an open exercise. While acknowledging the benefits of their engagement in public PRSP monitoring, the CSO raised concerns about limited access to official information. They also argued that it was difficult for civil society organizations to play a valuable role in PRSP monitoring when their representatives received invitations and reports only one or two days prior to meetings. CSOs claimed to have mentioned this issue several times, but have yet to receive a response.

¶14. Comment: We concur with the analysis that poor households receive less benefit from the suspension of customs duties and value added tax (VAT) for basic products designed to alleviate the impact of high world food and oil prices. To be effective, government subsidies and donor programs need to institute targeted social transfer programs that will reach the neediest population segments. However, the issues raised in this report may not represent the most difficult challenges facing Burkina Faso's economy over the coming year. Both food and energy prices have come down, which should have a positive impact on growth. The global economic crisis is nonetheless likely to exact a significant cost due to lower purchasing power in key markets and increased difficulty in access to credit by international investors.

JACKSON